

Message Text

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ACTION EB-07

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FOR EB/ICD (WENDT)

E.O. 11652: N/A

TAGS: ETRD, OECD

SUBJECT: JULY 7-8 MEETING OF AD HOC GROUP ON COMMON

FUND: STOCKING OPERATIONS

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FOR JULY 7-8 COMMON FUND MEETING. TEXT FOLLOWS:

BEGIN TEXT:

AS REQUESTED AT THE FIRST MEETING OF THE AD HOC GROUP, THE ATTACHED NOTE SETS OUT ONE POSSIBLE BASIS FOR SUPPORT BY A COMMON FUND FOR BUFFER STOCK OPERATIONS. IT WAS FELT THAT THE BEST PRACTICAL WAY OF STARTING THE DISCUSSIONS IN CONCRETE TERMS WOULD BE PROVIDED BY ENUNCIATING A BASIC MINIMAL FRAMEWORK WHICH WOULD FORM THE BACKBONE ONTO WHICH COULD BE ATTACHED ELABORATIONS AS AND WHEN THEY ARE AGREED OR ALTERNATIVES. HOWEVER, EVEN WITH THE LIMITED NUMBER OF AREAS OF CONSENSUS AMONG MEMBER COUNTRIES DELIMITED AT THE MARCH CONFERENCE, THE VARIETY OF OPTIONS HAS

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MADE FOR DIFFICULTIES IN DEFINING SUCH A BASIS FOR DISCUSSION.

IT MUST ALSO BE NOTED THAT, AT THIS STAGE, "OTHER MEASURES" HAVE NOT BEEN COVERED; THERE SEEMS TO BE WIDESPREAD AGREEMENT AMONG MEMBER COUNTRIES, AND POSSIBLY MORE WIDELY, THAT ARRANGEMENTS FOR THESE WOULD BE SUBSTANTIALLY DIFFERENT AND SEPARATE FROM THOSE FOR SUPPORT OF BUFFER STOCK FINANCING. WITH

THIS PROVISIO, IT IS HOPED THAT THE OUTLINE
ATTACHED DOES NOT PRE-EMPT
ANY BASIC ISSUE OR PRINCIPLE.

THE COMMON FUND: BASIS OF SUPPORT FOR BUFFER STOCKING
OPERATIONS

INTRODUCTION

1. THIS NOTE OUTLINES A POSSIBLE BASIS OF OPERATION
FOR A COMMON FUND BASED ON POOLING THE BUFFER STOCK
FINANCE OF INDIVIDUAL COMMODITY AGREEMENTS (ICA'S). IT
TAKES AS A STARTING POINT THE FOLLOWING PROPOSITIONS
REFLECTED IN THE GROUP B PROVISIONAL POSITION PAPER
AT THE COMMON FUND CONFERENCE IN MARCH.

A) A COMMON FUND SHOULD BE BASED ON A PATTERN OF
MUTUAL ASSISTANCE AMONGST PARTICIPATING INDIVIDUAL
COMMODITY AGREEMENTS (ICA'S), THE AIM BEING TO OPTIMISE
THE USE OF RESOURCES. IT SHOULD FUNCTION AS A
FINANCIALLY VIABLE INSTITUTION;

B) DECISIONS ON THE NEED FOR AND SIZE
OF INDIVIDUAL BUFFER STOCKS, RESPONSIBILITY FOR AND
METHODS OF FINANCING SUCH STOCKS, AND INTERVENTION IN
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COMMODITY MARKETS SHOULD BE METTERS FOR THE ICA'S;

C) ICA'S ASSOCIATED WITH THE FUND SHOULD
REPRESENT PRODUCING AND CONSUMING COUNTRIES TOGETHER
ACCOUNTING FOR A SUBSTANTIAL SHARE OF BOTH THE
IMPORT AND THE EXPORT TRADE OF THE COMMODITY CONCERNED.
SUCH ICA'S SHOULD HOWEVER BE UNDER NO OBLIGATION TO
PARTICIPATE IN THE FUND.

ICA'S DEPOSIT OBLIGATIONS

2. THE ESSENTIAL FEATURE OF THE FUND'S OPERATIONS
IN THE FIELD OF BUFFER STOCK FINANCE WOULD BE THAT ICA'S
PARTICIPATING IN IT WOULD ACCEPT DEPOSIT OBLIGATIONS IN
RETURN FOR BORROWING RIGHTS.

3. THE DEPOSIT OBLIGATION WOULD BE THAT PARTICIPAT-
ING ICA'S SHOULD LODGE WITH THE FUND A SPECIFIED MIN-
IMUM PROPORTION OF THE TOTAL BUFFER STOCK FINANCE
CALLABLE UNDER THE TERMS OF THE AGREEMENT, (I.E.
IGNORING ANY VOLUNTARY CONTRIBUTIONS) (1). ACCEPTANCE
OF THIS OBLIGATION WOULD BE A CONDITION OF ACCESS TO
THE FUND'S LENDING FACILITIES. THE PROPORTION TO

BE

DEPOSITED WOULD HAVE TO BE LAID DOWN IN ADVANCE IN THE
FUND'S ARTICLES, TO GIVE IT A MEASURE OF CERTAINTY
IN ITS OPERATIONS (2).

(1) IN THE CASE OF THE CURRENT TIN AGREEMENT, FOR
EXAMPLE, THE DEPOSIT OBLIGATION WOULD BE A PROPORTION
OF THE FINANCIAL EQUIVALENT OF 20,000 TONS OF TIN--
THE TOTAL OF INITIAL AND SUBSEQUENT CONTRIBUTIONS
CALLABLE FROM PRODUCING COUNTRIES. SPECIAL ARRANGE-
MENTS WOULD BE REQUIRED FOR ICA'S FINANCED BY MEANS
OF LEVIES--SEE PARAGRAPH 10.
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(2) IT IS POSSIBLE TO CONCEIVE OF AN ALTERNATIVE
APPROACH UNDER WHICH PARTICIPATING ICA'S WERE ONLY
OBLIGED TO MAKE DEPOSITIS AVAILABLE TO THE FUND
WHEN SUCH DEPOSITS WERE REQUIRED FOR ON-LENDING TO
OTHER ICA'S. IT IS FOR CONSIDERATION WHETHER THIS
POSSIBILITY SHOULD BE FURTHER EXPOLORED.

4. IT MIGHT BE NECESSARY TO CONSIDER WHETHER AN

UPPER LIMIT SHOULD BE SET ON THE PROPORTION OF FINANCE WHICH AN ICA COULD DEPOSIT WITH THE FUND. IT IS AFGUABLE THAT THE ICA'S COULD SAFELY BE LEFT TO MAKE THEIR OWN JUDGMENTS ON THIS. IT WOULD BE IMPORTANT NOT TO IMPOSE UNNECESSARILY RESTRICTIVE CONDITIONS ON THE FUND'S BASIS OF OPERATIONS, WHICH WOULD UNDERMINE THE CREDIBILITY OF THIS APPROACH.

ICA'S BORROWING RIGHTS

5. ALL PARTICIPATING ICA'S WOULD BE ENTITLED TO HAVE THEIR MINIMUM DEPOSITIS MADE AVAILABLE TO THEM AT SHORT NOTICE, WHENEVER THESE WERE REQUIRED TO PURCHASE COMMODITIES UNDER THE TERMS OF THE AGREEMENTS. IN LIMITED OFFICIAL USE

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ADDITION THE FUND WOULD OFFER THEM ACCESS TO A STANDARD TRANCHE OF CREDIT, EXPRESSED AS A PROPORTION OF MINIMUM DEPOSITS. THE AVAILABILITY OF SUCH CREDITS WOULD BE A MAIN INDUCEMENT TO THE ICA'S TO PARTICIPATE IN THE FUND.

SCALE OF MINIMUM DEPOSITS AND MINIMUM CREDITS

6. THE MINIMUM DEPOSIT OBLIGATION MIGHT BE AROUND (35-40) PERCENT OF EACH ICA'S TOTAL BUFFER STOCK FINANCE. IF THE LIMIT WERE SET MUCH HIGHER THE ICA'S MIGHT BE RELUCTANT TO PARTICIPATE; IF IT WERE SET MUCH LOWER THE RESULTING "SAVING" (THAT IS, FROM DIVERGENT PRICE MOVEMENTS AMONGST THE COMMODITIES), ON WHICH THE FUND WOULD RELY TO FINANCE ITS LENDING, WOULD BECOME TOO SMALL AND TOO PRECARIOUS FOR THE FUND TO BE ABLE TO OFFER ICA'S A TRANCHE OF CREDIT LARGE ENOUGH (AND SECURE ENOUGH) TO JUSTIFY THEIR PARTICIPATION. ILLUSTRATIVE CALCULATIONS BASED ON PRICE MOVEMENTS OF SELECTED GROUPS OF PRODUCTS IN THE PERIOD 1957-73 SUGGEST THAT WITH A 35-40 PERCENT DEPOSIT RATIO, THE STANDARD TRANCHE OF CREDIT OFFERED BY THE FUND COULD NOT SAFELY EXCEED (15-20) PERCENT OF MINIMUM DEPOSITS IF LENDING WAS TO BE FINANCED WHOLLY OF MAINLY FROM "SAVINGS" WITHOUT SIGNIFICANT RECOURSE TO CAPITAL FROM SOURCES OTHER THAN THE ICA'S THEMSELVES. (SEE CE/CG(77)30, ANNEX 1). IF RESOURCES WERE AVAILABLE FROM SOURCES OTHER THAN ICA'S, IT WOULD BE FOR CONSIDERATION TO WHAT EXTENT THIS MIGHT MODIFY THE ABOVE FIGURES.

SUPPLEMENTARY DEPOSITS AND CREDITS

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7. IT WOULD BE FOR CONSIDERATION WHETHER THE FUND SHOULD BE GIVEN DISCRETION (SUBJECT TO THE APPROVAL OF THE EXECUTIVE BOARD) TO NEGOTIATION ARRANGEMENTS FOR SUPPLEMENTARY DEPOSITS AND FOR SUPPLEMENTARY CREDIT TRANCHES WITH PARTICIPATING ICA'S. TO SAFEGUARD THE FUND'S VIABILITY, IT WOULD BE NECESSARY TO SET AN UPPER LIMIT IN ADVANCE ON ITS DISCRETIONARY LENDING; SUCH A LIMIT MIGHT BE EXPRESSED AS A PROPORTION OF AGGREGATE MINIMUM DEPOSITS.

TERMS AND CONDITIONS OF FINANCIAL OPERATIONS

8. IT WOULD BE FOR CONSIDERATION WHETHER THE TERMS OFFERED BY THE FUND ON MINIMUM DEPOSITS, AND DEMAND FOR MINIMUM CREDITS, SHOULD BE COMPARABLE WITH THOSE AVAILABLE TO ICA'S FOR SIMILAR FINANCE DEPOSITED WITH OR RAISED FROM COMMERCIAL INSTITUTIONS; OR WHETHER SOME VARIATION FROM COMMERCIAL TERMS WOULD BE POSSIBLE WITHOUT PREJUDICING THE FUND'S VIABILITY. IN ANY EVENT THE DIFFERENTIAL BETWEEN THE INTEREST RATES AT WHICH ICA'S COULD LEND TO AND BORROW FROM THE FUND WOULD HAVE TO BE NO LESS FAVORABLE THAN THE DIFFERENTIAL AVAILABLE ON THE MARKET. AND THE INTEREST RATE CHARGED ON CREDITS WOULD HAVE TO BE SUFFICIENT TO COVER ADMINISTRATIVE COSTS.

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9. THE FUND WOULD HAVE TO OBTAIN ADEQUATE SECURITY ON ITS LENDING (ON STOCKS HELD BY THE ICA'S). LOANS WOULD HAVE TO BE REPAYED AS SOON AS POSSIBLE; AND SHOULD BE REPAYABLE ON THE EXPIRY OF THE ICA CONCERNED.

PARTICIPATION OF ICA'S RAISING FINANCE BY MEANS OF LEVIES

10. IT WOULD BE FOR CONSIDERATION WHETHER AN ICA FINANCED BY MEANS OF IMPORT OR EXPORT LEVIES COULD IMMEDIATELY ENJOY THE SAME BORROWING RIGHTS SINCE IT WOULD NORMALLY TAKE SEVERAL YEARS TO ACCUMULATE ENOUGH CAPITAL TO FINANCE ITS BUFFER STOCK AND THUS FULFILL ITS MINIMUM DEPOSIT OBLIGATION WITH THE FUND.

11. TO DENY THEM ACCESS, IN THIS INTERIM PERIOD, TO THE FULL CREDIT TRANCHE TO WHICH THEY WOULD EVENTUALLY BE ENTITLED MIGHT BE THOUGHT TO PUT LEVY-FINANCED IC'S AT A DISADVANTAGE IN RELATION TO ICA'S FINANCED BY GOVERNMENT CONTRIBUTIONS. ON THE LIMITED OFFICIAL USE

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OTHER HAND, TO OFFER A PARTICIPATING LEVY-BASED ICA MORE CREDIT THAN WAS JUSTIFIED BY THE SIZE OF ITS DEPOSITS COULD BE SEEN TO PUT IT AT AN ADVANTAGE VIS-A-VIS THE OTHERS AND IN ADDITION MIGHT RAISE QUESTIONS CONCERNING THE FUND'S FINANCIAL VIABILITY

ICA PARTICIPATION AGREEMENTS

12. THE FUND WOULD BE EMPOWERED TO NEGOTIATE PARTICIPATION AGREEMENTS WITH ELIGIBLE ICA'S, THE LATTER BEING DEFINED AS ICA'S MAKING PROVISION FOR INTERNATIONAL(1) BUFFER STOCKS TO STABILIZE PRICES, AND REPRESENTING PRODUCERS AND CONSUMERS TOGETHER ACCOUNTING FOR A SUBSTANTIAL SHARE OF WORLD IMPORTS AND EXPORTS OF THE COMMODITY CONCERNED. USE MIGHT BE MADE, IN LAYING DOWN THE PRINCIPLES DETERMINING ELIGIBILITY, OF THE GUIDELINES IN CHAPTER VI OF THE HAVANA CHARTER AS ENDORSED BY ECOSOC RESOLUTION 296 (XI) OF 2 AUGUST 1950. THE PRECISE TERMS OF THE INDIVIDUALLY NEGOTIATED AGREEMENTS FOR PARTICIPATION IN THE COMMON FUND WOULD HAVE TO BE CONSISTENT WITH THE GENERAL PRINCIPLES OUTLINED IN

THIS NOTE.

(1) BUT SEE PARAGRAPH 13 BELOW.

NATIONALLY HELD STOCKS

13. SOME FUTURE ICA'S MAY PROVIDE FOR THE CO-
ORDINATION OF STOCKS HELD AND FINANCED ON A NATIONAL
BASIS. IT IS FOR CONSIDERATION WHETHER SUCH STOCK-
HOLDINGS MIGHT BE ASSOCIATED WITH THE FUND IN SOME
WAY- PERHAPS ON THE SAME GENERAL PRINCIPLES
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(INVOLVING MATCHING DEPOSIT OBLIGATIONS AND DRAWING
RIGHTS) AS WOULD GOVERN THE FUND'S RELATIONS WITH
ICA'S RESPONSIBLE FOR INTERNATIONAL BUFFER STOCKS.

SUPPLEMENTARY FINANCE FROM SOURCES OTHER THAN ICA'S

14. IT IS FOR CONSIDERATION WHETHER A FUND ESTAB-
LISHED ON THE BASIS OUTLINED ABOVE WOULD REQUIRE
SOME DEGREE OF FINANCIAL SUPPORT FROM SOURCES OTHER
THAN THE ICA'S. IT WOULD HAVE TO BE ABLE TO (I)
GUARANTEE TO PARTICIPATING ICA'S THE RETURN OF THEIR
DEPOSITS AT SHORT NOTICE; AND (II) TO OFFER THEM A
TRANCHE OF CREDIT. OCCASIONS COULD ARISE WHEN IT
COULD NOT MEET ITS OBLIGATIONS WITHOUT RECOURSE TO
OUTSIDE RESOURCES. FURTHER WORK IS NEEDED BOTH ON
THIS ASPECT, AS WELL AS ON THE MORE GENERAL QUESTION OF
RESOURCES OTHER THAN THOSE MADE AVAILABLE THROUGHT
ICA'S.
END TEXT.
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